FDIC State Profile

WINTER 2003

Connecticut

Employment conditions in Connecticut continue to decline in both the private and public sectors.

- Since reaching a cyclical peak in July 2000, employment in Connecticut fell by 3.2 percent, a loss of 55,100 jobs through October 2003, and significantly greater than the 1.8 percent employment decline registered nationally over the same period.
- More strikingly, total employment in Connecticut stood at 1,643,700 jobs seasonally adjusted in October 2003, slightly *below* the level of January 1990 (see Chart 1).
- Over this almost 14-year interval, manufacturing employment in Connecticut shrank by over one-third (more than 100,000 jobs). Within the sector, key areas of aircraft manufacturing and shipbuilding experienced job losses accounting for just less than one-half of the total decline.
- Public sector employment contracted at the state level over the past year in response to ongoing fiscal pressures. At the local level, employment has exhibited little change.

Increased military spending has contributed positively to the economy.

- Despite fiscal problems at the state level and ongoing retrenchment in the private sector, there are some signs of improvement. Military spending accelerated greatly over the past few years, and Connecticut benefited more than other states in New England (see Chart 2).
- Department of Defense prime contract awards in Connecticut doubled in fiscal 2002 from levels during 1994-1997. As a result, Connecticut's proportion of total awards in New England rose from slightly over one-quarter to over two-fifths, supplanting Massachusetts as the region's largest recipient.

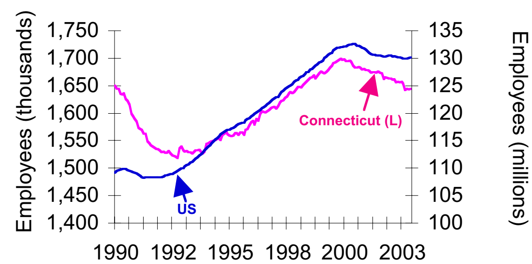
Housing market remains strong; appreciation continues but at a slightly slower.

- Rising house prices also have been impressive in Connecticut. Over the year ending in the second quarter of 2003, house prices rose by 7.5 percent for those financed using conventional mortgages, following gains of approximately 10 percent in each of the two preceding years. New housing construction in Connecticut has not responded significantly to the rising prices (see Chart 3).

Connecticut's banks and thrifts continued to be profitable, despite some pressure on net interest margins.

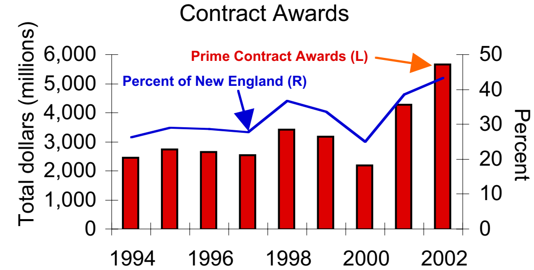
- Connecticut's commercial banks reported a median return on assets (ROA) of 0.68 percent as of the second quarter 2003, up slightly from 0.65 percent in the second quarter 2002. The state's savings

Chart 1: Nonagricultural Employment in Connecticut Has Returned to 1990 Levels



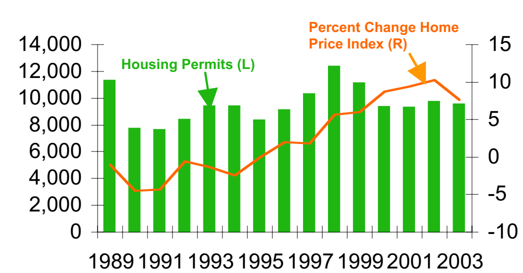
Source: U.S. Bureau of Labor Statistics.
Seasonally adjusted data through October 2003.

Chart 2: Connecticut Benefits from Large Increases in Department of Defense Prime Contract Awards



Source: Department of Defense, Directorate for Information Operations and Reports (DIOR).

Chart 3: Connecticut Home Prices Continue to Show Strong Growth with Limited New Supply

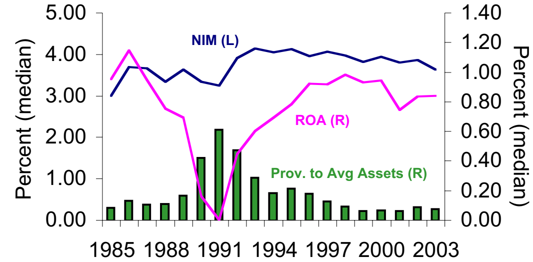


Source: U.S. Census Bureau and Federal Home Loan Mortgage Corporation.
2003 data as of 2nd quarter.

institutions posted a median ROA of 0.87 percent as of second quarter 2003, a three basis point decrease since the same period in 2002. Profitability has been undermined by declining levels of net interest income and the inability to increase sufficiently non-interest income.

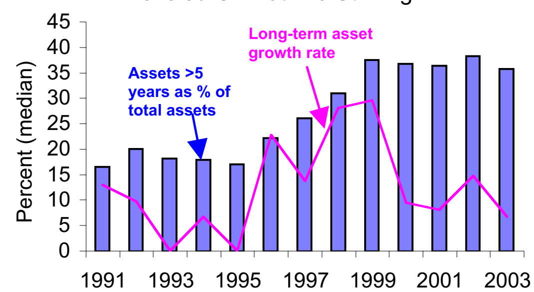
- The median net interest margin (NIM) in the state's commercial banks increased 10 basis points to 3.98 percent as of June 30, 2003, recovering only slightly after falling 67 basis points in the previous two years. Savings institutions experienced a year-over-year 30-basis point drop to 3.54 percent as of June 30, 2003, after holding relatively steady since 2000 (see Chart 4).
- Insured institutions continued to utilize gains on the sale of securities to boost earnings. For the first half of 2003, securities gains represented 21 percent of net income in the state's commercial banks and 7 percent in the savings institutions. There are still gains to be taken, at least in the short term, as total unrealized gains amounted to $137 million as of June 30, 2003, representing approximately 1 percent of total securities available for sale in both the commercial and savings institutions.
- Loan-loss provisions remained extremely low and supported profitability. Should the economy suffer another downturn, causing a deterioration in credit quality, profitability may be affected as insured institutions increase provisions.

Chart 4: Earnings Favorable but Still Show NIM under Pressure



Source: Bank and Thrift Call Reports. Data as of 2nd quarter.

Chart 5: Long-Term Asset Concentrations Have Leveled Off But Are Still High



Source: Bank and Thrift Call Reports. Data as of 2nd quarter.

Interest-Rate Risk remains a concern for Connecticut institutions with high concentrations of fixed-rate, long-term assets, resulting from the recent refinancing waves.

- The conventional 30-year mortgage rate declined significantly over the past several years, falling to historic lows. Refinancing activity remained strong during the first half of 2003, but slowed in the second half of the year, as mortgage interest rates began to rise. According to the Mortgage Bankers Association, on a national basis, the level of adjustable rate mortgages increased from only about 13 percent of originations in July 2003 to almost 24 percent in November 2003. While the shift to adjustable rate mortgages ultimately may allow asset repricing, insured institutions still hold large volumes of long-term assets at low fixed rates.
- Since the late 1990s, asset maturities lengthened at many institutions, but began to moderate in the last year. As of June 30, 2003, the median ratio of long-term assets to total assets was among historical highs at 37 percent (see Chart 5). If the recent rise in mortgage rates is sustained, the average life of mortgage portfolios will extend and may result in a mismatch of asset and liability repricing for some institutions. Net interest margin compression may occur, when short-term interest rates increase as liabilities reprice more rapidly than assets.
- The extension of asset maturities is pronounced in the state, as well as New England, reflecting the large percentage of thrifts and residential lenders. Savings institutions represent 61 percent of insured institutions in Connecticut, and residential real estate loans comprised almost 57 percent of their average loan portfolio as of June 30, 2003.

De novo activity remains strong, as Connecticut has the largest share of new banks in the New England.

- As of June 30, 2003, Connecticut had eight institutions less than three years old, representing 12 percent of institutions.
- Loan volume in new institutions has been concentrated in traditionally high-risk loan types, with 56 percent of total loans in commercial, commercial real estate, multifamily and construction loans.

Connecticut at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	66	68	70	70	73
Total Assets (in thousands)	54,364,507	52,657,913	49,538,780	47,872,621	45,381,399
New Institutions (# < 3 years)	7	9	10	8	5
New Institutions (# < 9 years)	16	16	14	11	8

Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	9.46	9.20	9.78	9.57	8.86

Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	0.97%	0.89%	1.08%	1.08%	1.51%
Past-Due and Nonaccrual > = 5%	1	0	3	3	2
ALLL/Total Loans (median %)	1.18%	1.13%	1.16%	1.21%	1.28%
ALLL/Noncurrent Loans (median multiple)	2.70	2.70	2.44	2.44	1.75
Net Loan Losses/Loans (aggregate)	0.24%	0.35%	0.36%	0.25%	0.30%

Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	8	9	10	6	6
Percent Unprofitable	12.12%	13.24%	14.29%	8.57%	8.22%
Return on Assets (median %)	0.84	0.84	0.75	0.94	0.93
25th Percentile	0.55	0.51	0.45	0.63	0.61
Net Interest Margin (median %)	3.63%	3.86%	3.79%	3.93%	3.81%
Yield on Earning Assets (median)	5.56%	6.34%	7.38%	7.43%	7.15%
Cost of Funding Earning Assets (median)	1.78%	2.40%	3.65%	3.60%	3.38%
Provisions to Avg. Assets (median)	0.07%	0.08%	0.06%	0.07%	0.06%
Noninterest Income to Avg. Assets (median)	0.54%	0.52%	0.49%	0.44%	0.43%
Overhead to Avg. Assets (median)	2.87%	2.88%	2.81%	2.90%	2.82%

Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	71.29%	74.24%	79.59%	76.77%	75.85%
Loans to Assets (median %)	57.44%	59.36%	61.75%	62.49%	61.35%
Brokered Deposits (# of institutions)	7	5	5	5	5
Bro. Deps./Assets (median for above inst.)	0.23%	0.10%	1.48%	2.97%	1.74%
Noncore Funding to Assets (median)	15.08%	14.77%	13.57%	14.55%	12.97%
Core Funding to Assets (median)	72.93%	72.44%	73.68%	74.05%	75.13%

Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	15	15	15	13	15
National	9	8	8	7	8
State Member	2	2	2	2	2
S&L	3	4	7	8	8
Savings Bank	6	7	5	4	2
Mutually Insured	31	32	33	36	38

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Hartford CT	19	7,945,743	28.79%	14.62%
No MSA	14	15,346,623	21.21%	28.23%
Stamford-Norwalk CT PMSA	10	3,359,567	15.15%	6.18%
New Haven-Meriden CT PMSA	7	3,545,689	10.61%	6.52%
Waterbury CT PMSA	5	15,756,972	7.58%	28.98%
Danbury CT PMSA	5	3,651,623	7.58%	6.72%
New London-Norwich CT-RI	4	4,400,601	6.06%	8.09%
Bridgeport CT PMSA	2	357,689	3.03%	0.66%